

**NATIONAL OCEANIC
AND
ATMOSPHERIC ADMINISTRATION**



**CONSTRUCTION WORK-IN-PROGRESS
(CWIP)**

POLICY AND PROCEDURES

Revised December 2003
(Original September 1998)

Table of Contents

	<u>Page</u>
<i>Table of Contents</i>	2
<i>Appendices</i>	3
<i>Purpose</i>	4
<i>Changes in the June 2003 Revision</i>	4
<i>1.0 <u>Overview of CWIP and the Process</u></i>	4
1.1 Organizations Responsible for CWIP P&P Process	6
1.2 CWIP Activity Manager Designation and Roles	7
1.3 Transferring of CWIP Activity Responsibility	8
<i>2.0 <u>CAMS Project Code Assignment</u></i>	8
2.1 Use of CWIP Sub Activities	9
2.2 OR&F Direct Funded CAMS Project Code Structure	9
2.3 PAC & Other Accounts Project Coding	10
<i>3.0 <u>Construction Work-In-Progress Costs</u></i>	10
3.1 Capital Costs	10
3.1.1 Capital Labor Costs	11
3.1.2 Incorporation of Leave and Benefits and Indirect Costs	11
3.2 Discussion and Considerations for Capital Costs	12
3.2.1 Extraneous Cost Consideration	13
3.3 Cost Valuation	13
3.4 Funding for Capital Improvements to Real Property	13
3.5 Budget Operating Plans	14
3.6 Expensed Costs	14
3.6.1 Expensed Labor Costs	15
3.7 Reimbursable, Funded CWIP Projects	15
3.8 Major New System Acquisitions	15
<i>4.0 <u>Documentation Requirements</u></i>	16
<i>5.0 <u>Transferring the Property from CWIP to PP&E</u></i>	16
5.1 Incomplete/Impaired CWIP	17

Appendices

- Appendix A: Policy and Procedures for Reporting Construction Work-In-Progress and Capitalization of GOES & POES Satellites
- Appendix B: Policy and Procedures for Reporting Construction Work-In-Progress and Capitalization of NPOESS Satellites
- Appendix C: Finance CWIP Processing Flow and Responsibilities
- Appendix D: Construction Work-In-Progress Report: CA500D
- Appendix E: Standardized Labor Distribution Worksheet Procedures Memorandum (Available in CAMS)
- Appendix F: Summary Level Transfer (SLT) CAMS Cost Adjustment (Will be adding)
- Appendix G: NOAA Form 37-6, Report of Property Constructed
<http://www.ofa.noaa.gov/~nbo/CWIP%20Docs/App.%20F.pdf>
- Appendix H: Incidental Cost Spreadsheet
<http://www.ofa.noaa.gov/~nbo/CWIP%20Docs/App.%20G.pdf>
- Appendix I: Glossary of Terms
- Appendix J: References
- Appendix K: Acronyms

Purpose

The purpose of this document is to prescribe the policies and procedures governing the accounting standards for identifying, documenting, reporting, and monitoring the National Oceanic and Atmospheric Administration's (NOAA) Construction Work-In-Progress (CWIP) costs for Capital Assets.

Accounting and financial reporting standards are essential for public accountability and for an efficient and effective functioning of our democratic system of Government. Thus, Federal accounting standards and financial reporting play a major role in fulfilling the government's duty to be publicly accountable and can be used to (1) assess the government's accountability and its efficiency and effectiveness, and (2) contribute to the understanding of the economic, political, and social consequences of the allocation and various uses of federal resources.

Changes in the December 2003 Revision

The December 2003 revision constitutes a major rewrite to the policy, incorporating a multitude of updates to include changing all references and reports from FIMA to CAMS.

1.0 Overview of CWIP and the Process

CWIP issues and costs are governed by the policy for general Property, Plant and Equipment (PP&E). CWIP is a temporary holding account used to track costs during the design and construction of PP&E that will eventually be capitalized and depreciated in NOAA's financial statements. The costs remain in the CWIP account until the PP&E has been constructively delivered and accepted by NOAA. When the item is placed into service, accruals should be prepared for all remaining undelivered orders. After the accruals are processed, all of the remaining CWIP costs should be transferred to the appropriate PP&E asset account. **The CWIP accounting process must be followed even if a project (which will result in the capitalization of the asset) is expected to begin and finish in the same fiscal year.** In addition to the acquisition costs of PP&E, certain costs associated with preparing the PP&E for service must be capitalized and therefore need to be recorded in the CWIP account. With the procedures established in this document, NOAA will be able to maintain an accurate record of CWIP in the accounting system.

The determining factor of whether an activity will require processing as CWIP depends on if it is expected to be capitalized. Those determinations are ultimately made by the Real or Personal Property staffs of the NOAA Office of Finance and Administration. In order to be considered a CWIP project, a construction project must meet all of the following four criteria for capitalization:

- (1) have an aggregate acquisition cost of \$200,000 or more;
- (2) have an estimated service life of two years or more;
- (3) provide a long-term future economic benefit to the NOAA organization which maintains or obtains control; and,

(4) is not intended for sale in the ordinary course of operations.

Subsequent determinations must be made for capital improvement efforts and bulk purchases. A project that extends the useful life of an asset is considered a capital improvement and will be capitalized and must be treated as a CWIP Activity. A bulk purchase in the amount of \$1,000,000 for items individually costing less than \$200,000 but more than \$25,000 with a useful life of 2 years or more also must be treated as CWIP.

If there is even the slightest possibility that any activity may require CWIP handling, you should check with the appropriate office well before any obligations are incurred to avoid considerable difficulties in getting the accounting information corrected.

CWIP efforts are to be identified prior to any costs being incurred. It is critical that a unique CWIP CAMS Project Code be assigned at the project's inception, so that the key steps can be incorporated early, avoiding time-consuming reconstruction and documentation of all relevant costs. The NFA Budget Execution Office will include a reminder to check for CWIP Activities in the annual target to facilitate the identification of current and future CWIP Activities.

The NFA Budget Execution Office will, on a quarterly basis, issue a CWIP Activity List to all Line Office organizations, Real and Personal Property Offices, Administrative Support Centers, NFA Finance, the NOAA Construction Staff and designated CWIP Activity Managers, as well as posting it on the CWIP page of the Budget Office Website. The website will include key information on the overall activity and contact names in the NFA Budget Execution Office, NFA Finance Office, and the Real and Personal Property Offices.

There are three major groups of assets which are generally capitalized and may require the use of the CWIP process :

- ▶ Real Property – the construction or significant improvement of a facility;
- ▶ Personal Property – the acquisition, development, construction or installation of equipment or asset which is not real property, or the significant improvement or modification to the original;
- ▶ Internal Use Software – the acquisition, development or modification to software which will be used internally.

It is NOAA's policy to ensure that there is a CWIP Activity Manager responsible for maintaining quantitative and financial control over each CWIP Activity, whether the project is for Real property, personal property or internal use software. The responsibilities of that individual include:

- ▶ ensuring that the work required to record the capitalization of the costs during the production/construction of the asset is performed
- ▶ ensuring that the value of the asset is accurately reported during the CWIP stage, and
- ▶ ensuring that the costs are properly reclassified as capitalized assets upon completion of the production/construction.

The proper accounting for CWIP is important not only because it is mandated under the Chief Financial Officers (CFO) Act of 1990, but because it also supports the capitalized Property, Plant and Equipment (PP&E) and depreciation components of the organization's Statement of Financial Position.

The following are the major steps involved in the CWIP accountability process. The sections referenced are where the steps are described within this document:

- CWIP Activity and CWIP Activity Manager Identification. Determine whether or not a project meets the criteria for a CWIP Activity, and if so, designate a CWIP Activity Manager (Section 1).
- CAMS Project Code Assignment. If an activity is identified as CWIP, ensure that a unique CWIP CAMS Project Code is assigned to enable the capturing of costs incurred under that CAMS project code (Section 2).
- CWIP Activity Costs. The costs associated with a CWIP project must be accurately tracked and recorded. (Section 3).
- Documentation. The required documentation for a CWIP Activity from its inception to completion must be collected and transferred to the Property (Real or Personal) files (Section 4).
- Transferring the Asset to PP&E. Capital costs accumulated in the CWIP portion of the general ledger must be transferred to General PP&E upon completion of the activity (Section 5).
- General Processing Responsibilities. The responsibilities of the relevant offices in the CWIP Activity process and a corresponding flowchart are listed in Appendix C.

With the information collected through adherence to this policy and procedures document, NOAA will be able to maintain the detailed subsidiary records required to support CWIP costs recorded in the General Ledger.

1.1 Organizations Responsible for CWIP P&P Process

The NFA Budget Execution Office has the overall responsibility for the coordination of interpreting, monitoring, and issuing of all NOAA CWIP policy and procedures, including modifications to existing guidance. They will defer to the appropriate office (listed below) on specific issues.

NFA Finance Office has the overall responsibility for ensuring that the policies are consistent with external requirements (e.g., the Federal Accounting Standards Advisory Board (FASAB). The NFA Finance Office also maintains the policy for Internal Use Software and a copy is on

their website at <http://www.ofa.noaa.gov>.

The NFA Personal and Real Property Offices are responsible for all questions regarding the determination of the policies for capitalization of personal and real property, respectively. Each of these offices maintains web sites with current guidance on what is referred to in the CWIP Policies and Procedures.

The NFA Personal Property Office, NFA Finance Office and the NFA CIO Office are responsible for all questions regarding the determination of the policies for capitalization of Internal Use Software.

1.2 CWIP Activity Manager Designation and Roles

The manager of each Line/Staff office with funds allocated to it is responsible for ensuring that CWIP policy and procedures are followed for all applicable activities and that a CWIP Activity Manager is designated for each activity.

The name, address and telephone number of the CWIP Activity Manager and designated financial representative will be provided to the NFA Budget Execution Office when the CWIP CAMS Project Code is established. Completion of a CWIP Activity Request Form will be required. Electronic copies are located on the NOAA Budget Office website at <http://www.ofa.noaa.gov/~nbo/CWIP.htm>.

The CWIP Activity Manager and designated financial representative have the overall responsibility for the financial and budgetary activities, as well as the responsibility for the accuracy of the valuation of the CWIP asset.

In addition to the single overall CWIP Activity Manager, other individuals can be identified on the CWIP Activity List as the person designated for either a) the preparation and accuracy of the reconciliations or b) maintenance of the needed documentation of the costs of the program. Others in support of the CWIP Activity must report either to the CWIP Activity Manager or to the CFO. The CWIP Activity Manager still has the responsibility to ensure all required activities are properly carried out.

The overall CWIP Activity Manager and designated financial representative are responsible for ensuring that the following activities are properly performed:

- ▶ Prepare and/or forward a total cost estimate for the CWIP Activity to the organizations' Chief Financial Officer (CFO) or Chief of the Management and Budget (MB) staff;
- ▶ Prepare and maintain a schedule of completion for the CWIP Activity to include start date, key milestones, and projected costs and completion date.
- ▶ Work with the CFO or MB staff for assignment of a unique CWIP CAMS Project Code prior to any obligations being made on the project, and prepare the CWIP Activity Project Number Request Form to be submitted with the CAMS Project Code Request Form;
- ▶ Determine that each cost charged to the CWIP Activity should be capitalized and not

- expensed to another non-CWIP CAMS Project Code;
- ▶ Review the quarterly CWIP Activity List and advise NFA Budget Execution Office of changes in estimated costs, project completion date, or CWIP Task Manager assignment;
- ▶ Maintain the documentation file, assuring its completeness and accuracy;
- ▶ Conduct monthly reviews of the CAMS CWIP Report (CA500D) and verify the accuracy of project code assignments (capital versus expense), object class coding, and dollar amounts;
- ▶ Maintain a current CWIP Program Completion Schedule;
- ▶ Submit cost adjustments for corrections as needed;
- ▶ Submit annual cost adjustments to record “Incidental Costs” for the project (if applicable);
- ▶ Conduct required quarterly reconciliations between the “local” CWIP Activity documentation and the most current CWIP CA500D Report (see Appendix C for guidance on the reconciliation process). **To increase the overall oversight of reconciliations, the Line Office CFO/MB Chiefs are responsible for ensuring that the quarterly reconciliations are performed.**
- ▶ Submit NF 37-6’s for completed CWIP activities in the calendar quarter in which they are accepted, (delivered, or occupied, as appropriate).
- ▶ Upon completion of the CWIP Activity, reconcile the CWIP file documentation to the CWIP Report and complete the NOAA Form 37-6. The 37-6 should be marked as FINAL.
- ▶ Notify appropriate servicing payments offices to accrue undelivered orders to accounts payable;
- ▶ Transfer NOAA Form 37-6, with the supporting documentation file, to the appropriate property office;
- ▶ Ensure assignment of a property identification number (PIN) upon completion of the project;
- ▶ When final payment is authorized for the CWIP project, submit an amended NOAA Form 37-6 to the appropriate property office if the total capitalized amount differs from the amount recorded earlier.

The details of these responsibilities are included in Appendix C.

1.3 Transferring of CWIP Activity Responsibility

If the overall management and control of CWIP Activity is transferred to another organization, then all of the responsibilities for management and documentation of the CWIP process are transferred. However, a CWIP Activity which is identified as a single item on the CWIP Activity List maintained by the NFA Budget Execution Office, can have only ONE overall CWIP Manager. This often occurs when major construction projects are transferred from the Line Office to NFA to manage.

2.0 CAMS Project Code Assignment

Once an activity is identified as CWIP, the CWIP Activity Manager, working through the organizations’ MB staff and the NFA Budget Execution Staff, will ensure that the required unique CWIP CAMS Project Code is assigned to the project. A CWIP Activity will have, as a minimum, one unique CAMS Project Code assigned to capture all costs associated with that project that are to be capitalized; **it will frequently have a second non-CWIP Project Code for**

costs that cannot be capitalized (expensed), associated with that activity.

The accounting system must be able to recognize project codes as being for a CWIP Activity if those costs are to be accumulated in a CWIP asset account.

The “system” requirement in CAMS differs somewhat from those, which were needed for FIMA. Due to the limitations in FIMA, two different coding schemes were required. One of the coding schemes is for the direct OR&F appropriation and the other is for other “Funds” (appropriations). NOAA’s policy is such that if work is truly reimbursable, NOAA should not be taking possession of the asset or be recording any reimbursable costs as CWIP unless the asset has been transferred to NOAA.

The “structure” of the CWIP CAMS Project Code will continue (at least for FY 2003) within CAMS as described below. Since CAMS will be tracking CAMS Project Codes for CWIP activities by the use of a “project type” field associated with the CAMS Project code, in the future the use of the structure described below for CWIP CAMS Project Codes may change.

2.1 Use of CWIP Sub Activities

For each CWIP Activity included on the list ONLY ONE CAMS Project Code can be used along with one overall CWIP Manager. Likewise a “consolidated” reconciliation will be required for each CWIP CAMS Project Code. Given this restriction, if an organization still wishes to, it can have several “component” or CWIP Sub-Activities under the overall CWIP Activity which are differentiated by CAMS Task Codes. If this is the case then the Budget Office will record the information for each of the CWIP Sub-Activities under the overall CWIP Activity.

2.2 OR&F Direct Funded CAMS Project Code Structure

In the direct funded portion of the Operations, Research and Facilities (OR&F) Appropriation (Identification Code 13-1450), Capital Acquisition, FIMA Appropriation code “4” is currently being used as a means of identifying CWIP CAMS Project Codes that are to be capitalized and ultimately depreciated. The “4” designator is used in the “fund position” in the CAMS Project Code.

Example: For an OR&F activity that meets the criteria for CWIP (see Section 3), instead of the CAMS Project Code being x8yyyyy the OR&F CWIP CAMS Project Code would be x4yyyyy.

The leading x is a LO identifier for project codes set up prior to the FY03 multi-year appropriation. In CAMS the first three y’s represent the budget activity, sub-activity and line item. The last two y’s represent unique CAMS Projects.

2.3 PAC & Other CAMS Project Code Structure

For the PAC Appropriation (Identification Code 13-1460) and all other funds, the structure of the CAMS Project Code will be an “F” in the 4th position of the CAMS Project Code (3rd position of the FIMA task code).

Example: If a PAC Appropriation activity meets the criteria for CWIP (see Section 3), the PAC CWIP CAMS Project Code would be x2yFyyy. (If the non-CWIP CAMS Project Code for non-capitalized costs for an activity was 62PC1SC, then the CWIP CAMS Project Code assigned would probably be 62PF1SC.

Since the General Ledger of the accounting system accumulates the cost of each CWIP CAMS Project Code separately, it is important that each CAMS Project Code issued be used for that specific project only. It is useful to establish the sixth and seventh position of the project code as a unique identifier to a specific project, i.e., a project in Santa Cruz might have “SC” as the identifier in both the CWIP and expense CAMS Project Codes (62PF1SC for CWIP capitalized and 62PC1SC for non-capitalized costs).

The Financial Management Center (FMC) and Line Office must exercise care in ensuring that tasks can stand alone and are not of a support type function that must be allocated to several tasks or included in their General Support task plan.

3.0 Construction Work-In-Progress Costs

3.1 Capital Costs

Specific examples of costs to be included in CWIP for capitalization include:

- NOAA staff labor cost for in-house design and engineering of "final design" - defined as architectural and engineering design used for construction or production contracting*;
- actual contract costs with modifications for architectural and engineering contract design and engineering of “final design”*;
- actual costs for architectural and engineering task orders for design surveys (i.e., geotechnical survey to finalize foundation design in process -- to be distinguished from surveys conducted in the planning stage, i.e., land surveys);
- storage costs of Government Funded Equipment (GFE) delivered prior to installation date;
- duplication costs of 100% design drawings;
- construction contract and all modifications; and,
- materials and all actual labor associated with in-house construction.

*Note: If design is stopped for a change in scope, a determination must be made whether to capitalize the design costs to date. If the original design is abandoned and a new design initiated, a cost adjustment must be made to transfer those design costs already recorded from CWIP to a non-capitalized CAMS Project Code. If the original design is retained and modified, the design costs already recorded will remain in CWIP and the additional costs will be added

within the CWIP CAMS Project Code.

3.1.1 Capital Labor Costs

NOAA labor costs for in-house design and engineering of CWIP Activities must be captured as a capitalized labor cost. The labor costs will be reflected in the CAMS CWIP Report (CA500D), and will be encompassed within Object Class Codes 11XX, 12XX and 77XX for salary, leave, benefits and indirect costs respectively. The sum of these three object class codes will be the total labor cost and indirects to be capitalized.

In addition, for all CWIP projects, an “incidental and administrative” cost will be captured to represent costs for:

- ▶ labor for procurement, finance, supervisory, clerical, etc.
- ▶ labor for engineers performing project management tasks associated with A/E design effort and construction management tasks.
- ▶ program/client labor associated with design review and construction management.
- ▶ all other non-labor, i.e., travel, printing (other than final design drawings that go with the construction solicitation), ordinary supplies, etc.

NOAA will use a 3% and 5% calculation for incidental and administrative costs, which eliminates the need to capture actual costs for these type activities.

The 3% and 5% will be recorded as a cost adjustment on an annual basis, calculated in monthly increments. For real property construction, the 3% and 5% will be calculated as a percentage of the estimated construction contract cost only. For personal property construction, the 3% and 5% will be calculated as a percentage of the estimated total project cost.

A cost adjustment of 3% will be applied for projects with a relevant cost (construction or total project) estimated to be \$1,000,000 or greater, and for projects under \$1,000,000 a cost adjustment of 5% will be applied. The amortization period for the 3% and 5% calculation shall be the design and construction period. **No cost adjustments are required** until the fiscal year in which design begins. A sample spreadsheet for this calculation is included in Appendix H. An electronic version of this spreadsheet is available from NFA Budget Execution.

For the annual cost adjustment for incidental costs, a separate and distinct set of project codes must be used. Costs must be adjusted from a funded non-CWIP related CAMS Project Code to the CWIP CAMS Project Code. For NFA, all incidental and administrative cost adjustments will be made from 8P1BCW to the appropriate CWIP project code on the NOAA summary level cost adjustment.

3.1.2 Incorporation of Leave and Benefits and Indirect Costs

When direct labor is charged to a project code, the accounting system (CAMS) will apply a leave and benefit surcharge and NOAA indirect costs to the project. This will ensure that the full cost of labor is associated with the project.

For the purposes of estimating the full labor costs of a project, the organization should use the total cost of labor which is made up of:

- (1) cost of the direct labor (hourly rate times the number of hours);
- (2) the leave surcharge amount (cost of direct labor times the FMC leave surcharge rate);
- (3) the benefit surcharge (the sum of “a” and “b” times the benefit rate); and,
- (4) NOAA indirect costs.

If, for some reason, a labor cost adjustment must be made to reassign some labor to a project, the use of a Labor Cost Adjustment Document NOAA Form 34-68 will result in the leave and benefit rates being applied to direct labor on the projects. Likewise, if a summary level cost adjustment is made, the leave and benefit surcharges will be applied. (Guidance for the completion of the new Cost Adjustment Form used for CAMS will be provided or available on the Budget Office CAMS website)

3.2 Discussion and Considerations for Capital Costs

The CWIP capitalized CAMS Project Codes involve construction and installation costs, and generally include all ancillary costs associated with design, delivery, project management, and testing and implementing the equipment or facility. CWIP capitalized costs are usually non-recurring, although several years may be required to complete large installation projects, and funding may be spread over that period. The Statement of Federal Financial Accounting Standards, Number 6, Accounting for Property, Plant, and Equipment, from the Federal Accounting Standards Advisory Board (FASAB) states that costs captured shall include all costs incurred to bring the Property, Plant and Equipment to a form and location suitable for its intended use, and would include:

- amounts paid to vendors;
- transportation charges to the point of initial use;
- handling and storage costs;
- labor and other direct or incidental production costs (for assets produced or constructed);
- engineering, architectural, and other outside services for designs, plans, specifications, and surveys;
- acquisition and preparation costs of buildings and other facilities;
- an appropriate share of the cost of the equipment and facilities used in construction work;
- fixed equipment and related installation costs required for activities, a building or facility;
- direct costs of inspection, supervision, and administration of construction contracts and construction work;
- legal and recording fees and damage claims;
- fair value of facilities and equipment donated to the government; and,
- material amounts of interest costs paid (interest costs refers to any interest paid by the

reporting entity directly to providers of goods or services related to the acquisition or construction of PP&E).

If an item is an integral part of a system and is being provided by NOAA instead of the vendor (e.g. a custom-built sensor), then that item shall, for the purposes of personal property records and CWIP accountability, be considered a cost of the system.

In addition to the costs of construction of an asset, costs of additions, alterations, betterments, rehabilitations or replacements that meet the criteria in Section 1, and extend the useful life of the asset, shall be treated as a CWIP project. A “Useful Life Determination” shall be made based on existing NOAA real and personal property policy and documented using the object code classifications on page 6 of Appendix G.

3.2.1 Extraneous Cost Considerations

Some CWIP projects extend over several years and may not have any purchases of capital equipment, (items \$200K or over) in any specific year. For CWIP projects where this scenario occurs, Project Managers will not capitalize any assets until significant milestones and/or events are met. Projects Managers will develop work schedules that identify significant events and milestones over the life of the CWIP project in question. Upon the attainment of each successive project milestone (may not have any in some years), the Project Manager will capitalize the costs incurred to date using the 37-6 document. When multiple significant milestones or events occur during the same fiscal year, the Project Manager will capitalize all of the cumulative costs for that year under the final completed milestone for that year.

For on going CWIP projects in which few capital assets are purchased, (items \$200K or over) in any one year, the Project Manager will capitalize each particular capital asset when that item becomes operational. All other project costs, (not associated with the capitalized equipment item) should follow the guidance above and be capitalized when significant events and/or milestones occur.

3.3 Cost Valuation

The FASAB Standard No. 6 states that general PP&E items should be recorded at cost. However, because there is more than one way to arrive at a valuation based on cost, there is a need for a hierarchy of cost determination methodologies. Based on traditional accounting theory, and reinforced by the FASAB in Standard No. 6, actual or historical cost is the preferred valuation methodology. For all CWIP projects completed under these policies and procedures, with the exception of “Capital Labor Costs” as defined in Section 3.5.1, there should be no reason that all costs cannot be based on actual amount.

3.4 Funding for Capital Improvements to Real Property

NOAA has received limited annual appropriations for real property and has adopted a methodology for determining which capital improvement activities will be funded each year

based on a “priority categorization” for individual activities. This categorization is based on a descending order of priority for activities to:

- (1) correct life safety deficiencies or legislatively-mandated repairs or actions;
- (2) major systems life-cycle replacement or repair;
- (3) modification or upgrade to reflect agency mission or program changes; and,
- (4) facility upgrade to industry standards.

Prioritization dictates committing funds at the activity level versus the overall facility or site. This helps preclude situations where scarce resources are applied to low priority activities lumped into one allocation at a site while life safety concerns go unfunded at a separate location. Individual activity funds are requested independently and funded as discrete activities.

NOAA does occasionally simultaneously fund multiple activities at one site when allocating funds. Those activities may be developed and contracted for separately, but could be combined for the purpose of determining if the work at the site should be capitalized or expensed.

When multiple activities at a single facility are simultaneously funded, those activities will be grouped and the criteria for determining capitalization of improvements to Real Property will be applied to the aggregate of projects. If monies for additional activities at that site are provided after the initial allocation, those activities will be treated individually for determining capitalization and will not be added to the original effort and determination.

3.5 Budget Operating Plans

The level at which most Budget Operating Plans will be prepared in CAMS will be at the Program level by FMC, by quarter and by object class. The Program level in CAMS reflects the lowest level at which allotments are made in CAMS. Since a CAMS Program can include a number of related CAMS Project Codes, both CWIP and non-CWIP, no distinction is needed in the BOP for planning for CWIP activities.

3.6 Expensed Costs

Specific examples of costs not included in CWIP for capitalization but instead to be recorded as an expense include:

- planning activities, to include economic/cost benefit analyses, National Environmental Policy Act (NEPA) activities, programming studies, conceptual space layouts and designs, surveys prior to initiation of final design, concept studies, risk management studies, etc.;
- ordinary administrative supplies (i.e., copy paper, office equipment, etc.);
- personal property equipment developed as prototypes "leading to development of specification" that will be used for purchase/production - these are "pre-design" costs;
- personal property equipment constructed for Research and Development that is intended

as experimental, changing product rather than as a finished product; and, personal property equipment used for administrative support.

It should be noted that there are only a few circumstances in which ordinary administrative supplies, personal property equipment used for administrative support and actual incidental and administrative labor costs would be recorded as CWIP costs. For example, these costs for the Major Systems and Satellite acquisition programs would be captured as CWIP costs because these functions would not exist if these systems were not being procured. Additionally, accountable personal property may be delivered as part of the CWIP project. This property must be tracked in the personal property system as separate components of the major system. The value of this equipment will be recorded, but will not be confused with the cost of the capitalized asset being constructed.

3.6.1 Expensed Labor Costs

Actual incidental and administrative labor costs (see Section 3.1.1 for a listing) represent an expense of the agency for work "performed as part of the normal course of business" insofar as these staff members perform these same type tasks irrespective of specific projects in the CWIP process.

3.7 Reimbursable, Funded CWIP Projects

For CWIP projects that receive reimbursable funding the costs will be included in the total value of the project only if the Memorandum Of Understanding (MOU) identifies the asset as belonging to NOAA.

3.8 Major New System Acquisitions

All new major systems normally go through three phases and several approval steps during the lifecycle of the major system. The three major phases are; the Pre-Systems Acquisition or Study phase, the Systems Acquisition phase, and the Sustainment phase. When the "new" project reaches the systems acquisition phase then the "new" project is classified as CWIP. The major phases in the lifecycle of new systems are described below:

Pre-Systems (Study) phase:

Project requirements are identified and defined. System concepts and specifications are developed in order to meet the user's requirement needs. Acquisition planning is developed in order to procure the system in the most efficient and economical way possible.

Acquisition phase: "CWIP begins"

The work efforts that occur in this phase are the integration of demonstrated subsystems and components, and the demonstration of engineering models, (also called the validation of the proof of the concept phase). Upon successful validation of the proof of concept, full scale production/implementation of the new system(s) will begin.

Sustainment:

In this phase, fully developed systems are used, maintained, and ultimately disposed of after reaching the end of their life expectancy.

4.0 Documentation Requirements

The CWIP file should contain adequate supporting documentation for proper cost valuation of the asset. The NOAA Form 37-6 (Appendix G) "Report of Property Constructed" is required to be completed and forwarded to the NFA Finance Office. Completed CWIP activities should be reported on the NF37-6 in the calendar quarter in which they are accepted, (delivered or occupied, as appropriate). The final Form 37-6 is required to be executed at project completion. The Form 37-6 summarizes costs to be capitalized as the basis for the asset value entered into the PP&E portion of the general ledger and the PMIS/RSMIS systems.

The CWIP Activity Manager must obtain copies of, or have access to the source documents for those costs, and the file should include, but is not limited to:

- copies of construction or production contract and all modifications and related invoices;
- copies of travel vouchers for inspections or design review (only for projects involving NOAA staffed, in-house designs);
- copies of architectural and engineering contract task orders and related invoices;
- bills of lading for transportation charges;
- the CAMS CWIP Report (CA500D) to document direct labor costs;
- copies of contracts for construction management services and related invoices;
- copies of billing for space charges for storage costs;
- copies of invoices for duplicating drawings and specifications for final design;
- copies of purchase orders, Receipt and Inspection Reports and related invoices for materials purchased for in-house construction;
- CD-509 "Property Transaction Report" for personal property construction; and,
- CWIP spreadsheet or planning document as a cost and documentation checklist.
- The documentation related to CWIP Activities which have been transferred is included in section 1.2.

Although the policy calls for the proper documentation of the costs to be maintained by the CWIP Activities Manager, it recognizes that on occasion copies of documents may not have been included in the CWIP folder. In these cases, since the document number for the missing item exists in the on-line accounting records, this will allow the source document in the Servicing Finance Office to be checked by the CWIP Activity Manager or auditor, if needed.

5.0 Transferring the Property from CWIP to PP&E

The Statement of Federal Financial Accounting Standards, Number 6, states that PP&E shall be

recognized when title passes to the acquiring entity or when the PP&E is delivered to the entity or to an agent of the entity. In the case of constructed PP&E, the PP&E shall be recorded as Construction Work-In-Progress until:

- a. NOAA has established “Beneficial Occupancy” of real property (the Beneficial Occupancy Date, or BOD, shall be used as the “acquisition date” for purposes of depreciation);
- b. Personal property is available for use. Under normal circumstances, it is the date the property is placed into service since property is ordinarily placed into service when it is available for use. However, if circumstances dictate that the property is not placed into service immediately, nevertheless, if it is ready to be used, its CWIP status ends.
- c. Thus, B.O.D. acceptance and accepted delivery take precedence over whether the asset is paid or unpaid.
- d. Note: Acceptance means that NOAA has agreed that the project is substantially completed according to specifications. In the case of satellites, it suggests the satellite has been declared operational.

The asset costs will be transferred from CWIP to general PP&E on the effective acquisition date, beneficial occupancy date, or the date the satellite or vessel is declared operational. To initiate that transfer, the CWIP Activity Manager will send the completed original of the Form 37-6 “Report of Property Constructed”, together with documentation supporting the costs summarized on the 37-6, to the appropriate Property Officer (Real or Personal). Finance will distribute an e-mail notification when it posts the NF 37-6 to the CWIP Report. The recipients will be the Activity Manager, the Line Office CFO/M&B, the respective Personal or Real Property Office, and the Central Budget Office CWIP contact.

5.1 Incomplete/Impaired CWIP

Once activity on a CWIP project has begun and costs have been accumulated in the corresponding CWIP account, managers may conclude (based on their quarterly reviews) that the project will never be completed or has become non-viable. Should this occur, the CWIP manager must notify the NFA Finance Office so accumulated CWIP costs may be reduced to reflect expected net realized value and losses (if any) recognized. The CWIP manager must ensure that all costs previously recorded in the CWIP account are cost adjusted to expense.

Go to CWIP Website for Appendices A through H.

APPENDIX I

Glossary of Terms

Additions, Alterations, Betterment, Rehabilitations, or Replacements - that extend the useful life of the asset or its service capacity, shall be capitalized as property, plant and equipment at their cost. The cost of other repairs and maintenance shall be expensed. See NOAA's policy on upgrading personal property at <http://www.pps.noaa.gov/Newmenu/upgradeproc.htm>.

Bulk Purchases - the one-time purchase of items that individually cost less than \$200,000 and more than \$25,000, but as a whole cost \$1,000,000 or more with an estimated useful life of 2 years or more.

Capital Assets - are items that provide long-term future economic benefits to the organization which maintains or obtains control. These items are commonly referred to as fixed assets, which include land, structures, equipment, vehicles, intellectual property (including software), and leasing agreements and have an estimated useful life of two years or more. They may possess physical characteristics (tangible) or provide special rights of ownership or use (intangible). Capital assets exclude items acquired for resale in the ordinary course of operations or held for the purpose of physical consumption such as operating materials and supplies. The cost of a capital asset includes both its purchase price and all other costs incurred to bring it to a form and locations suitable for its intended use.

Capital assets may be acquired in different ways: through purchase, construction, or manufacture; through a lease-purchase or other capital lease, regardless of whether title has passed to the Federal Government, or through exchange. Capital assets include leasehold improvements and land rights; assets owned by the Federal Government but located in a foreign country or held by others (such as Federal contractors, state and local governments, or colleges and universities); and assets whose ownership is shared by the Federal Government with other entities. Capital assets include not only the assets as initially acquired but also additions; improvements; replacements; rearrangements and reinstallations; and major repairs but not ordinary repairs and maintenance.

Capital assets do not include grants for acquiring capital assets made to state and local governments or other entities. Capital assets also do not include intangible assets such as the knowledge resulting from research and development (R&D) or the human capital resulting from education and training, although capital assets may include land, structures, equipment and intellectual property (including software), that the Federal Government used in R&D and education and training. Personal Property equipment constructed for R&D that is intended for future cannibalization should be expensed. Equipment constructed for R&D that will remain an intact, finished product for its useful life, will be capitalized.

Capitalize - To record as an asset, and subsequently recognize a portion of the original acquisition cost as depreciation expense over its estimated useful life.

Construction Work-In-Progress (CWIP) - A temporary "holding account" for collecting costs during activities related to the acquisition of capital property, plant and equipment, defined by the following: 1) having an aggregate acquisition cost of \$200,000 or more; 2) having an estimated service life of 2 years or more; 3) provides a long-term economic benefit to the organization which maintains or obtains control, and 4) not intended for sale in the ordinary course of operations, and 5) will eventually be capitalized and reported in the financial statements.

Cost - The financial measure of resources consumed in accomplishing a specific purpose such as performing a service, carrying out an activity, or completing a unit of work or a specific project. The accrued cost column on the CWIP Report (CA500D), increases or decreases in response to obligating documents entered into CAMS at the detail level in the servicing financing center or by cost adjustments entered at the detail or summary level.

CWIP Activity Manager - The individual who initiates obligating documents for a CWIP Activity. They will also collect, record, and verify all costs, including direct and incidental labor associated with the CWIP Activity.

Depreciation and Amortization - Methods used for allocating the cost of the capital assets over their estimated useful lives. There are various types of methods used for systematically depreciating/amortizing assets; however, each process involves the periodic write-off and reduction in the book value or cost of a tangible or intangible asset.

Economic Life - The period during which a fixed asset is capable of yielding services of value to its owner (See "useful life").

Expenses - Costs incurred which provide no future benefit, having expired in terms of usefulness or applicability. Expenses are reported on NOAA's income statement.

Final Design - The development of the drawings and specifications that are ultimately used in the construction of the project.

Intangible Asset - A right or nonphysical resource that is presumed to represent an advantage to the organization's position. Such assets include copyright, patents, TRADEMARKS, goodwill, computer programs, organization costs, and licenses.

Property, Plant and Equipment (PP&E) - Tangible assets that (1) have an estimated useful life of 2 or more years, (2) are not intended for sale in the ordinary course of business, and (3) are intended to be used or available for use by the entity. There are three categories of Federal PP&E: (1) general PP&E are PP&E used to provide general government services or goods; (2) heritage assets are those assets possessing significant educational, cultural, or natural

characteristics; and (3) stewardship land (i.e., land other than that included in general PP&E).

Real Estate and Space Management Information System (RSMIS) - RSMIS is the Real Estate and Space Management Information System which was developed to enable management to generate inventory real property reports. The data contained in the RSMIS database encompasses the different stages of a real property's existence, from acquisition to disposal. The four Administrative Support Centers, along with NOAA headquarters personnel, maintain the data contained within RSMIS for the clients within each service area.

Severable PP&E - are stand alone (severable) PP&E items that need to be capitalized (for depreciation purposes) before the core asset is completed because they are put into service prematurely. See Personal Property Office for guidance.

Sunflower Assets - the Property Management Information System used by NOAA to track personal property. The four Administrative Support Centers, along with NOAA headquarters personnel, maintain the data contained within Sunflower Assets for the clients within each service area.

Total Obligations - The sum of undelivered orders and costs (paid and unpaid) at a specified time period.

Uncapitalized Costs - The asset value of a CWIP activity that represents the difference between the Costs (delivered goods/services) and Capitalized Cost columns on the CWIP Status Report. The uncapitalized portion may include excess or invalid cost balances that need to be adjusted at the close of a CWIP activity.

Undelivered Orders - Orders for goods and services that have not been received or delivered.

Useful Life - The normal operating life in terms of utility to the owner.

APPENDIX J

References

Chief Financial Officers (CFO) Act of 1990.

Department of Commerce (DOC), Accounting Principles and Standards Handbook, dated August 1999.

Department of Commerce, National Oceanic and Atmospheric Administration (NOAA), Budget Handbook, dated 6/30/94.

Department of Commerce, National Oceanic and Atmospheric Administration (NOAA), Finance Handbook, dated April 6, 1995.

Federal Accounting Standards Advisory Board (FASAB), No. 6, Accounting for Property, Plant, and Equipment, dated November 30, 1995.

Office of Management and Budget, Preparation and Submission of Budget Estimates, Circular No. A-11, dated July 2001.

Office of Management and Budget, Instructions on Budget Execution, Circular No. A-34, dated November 2000.

APPENDIX K

Acronyms

CY Calendar Year

CWIP Construction Work-in-Progress

DOC Department of Commerce

DoD Department of Defense

EDR Environmental Data Records

FY Fiscal Year

GSFC Goddard Space Flight Center (NASA)

IDPS Integrated Data Processing Segment

IPO Integrated Program Office

KDP Key Decision Point

LSB Logistics Services Branch

METOP Meteorological Operations/EUMETSAT; Meteorological Observation

NFA NOAA Finance and Administration

Satellite System

NASA National Aeronautic and Space Administration

NESDIS National Environmental Satellite, Data, and Information Service

NOAA National Oceanic and Atmospheric Administration

NPOESS National Polar-orbiting Operational Environmental Satellite System

NPP NPOESS Preparatory Project

OFA NOAA Office of Finance and Administration

PAC Procurement, Acquisition, and Construction

PCO Program Control Office

PDRR Program Definition and Risk Reduction

PM Program Manager

PP&E Property, Plant and Equipment

PPB Personal Property Branch, Logistics Staff Office, NOAA Chief Administrative Officer,
NOAA

USAF United States Air Force